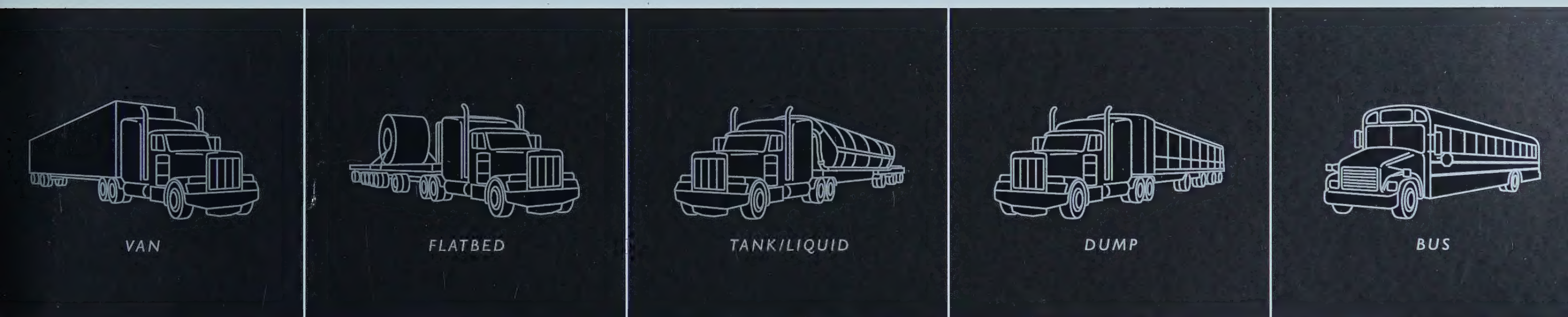
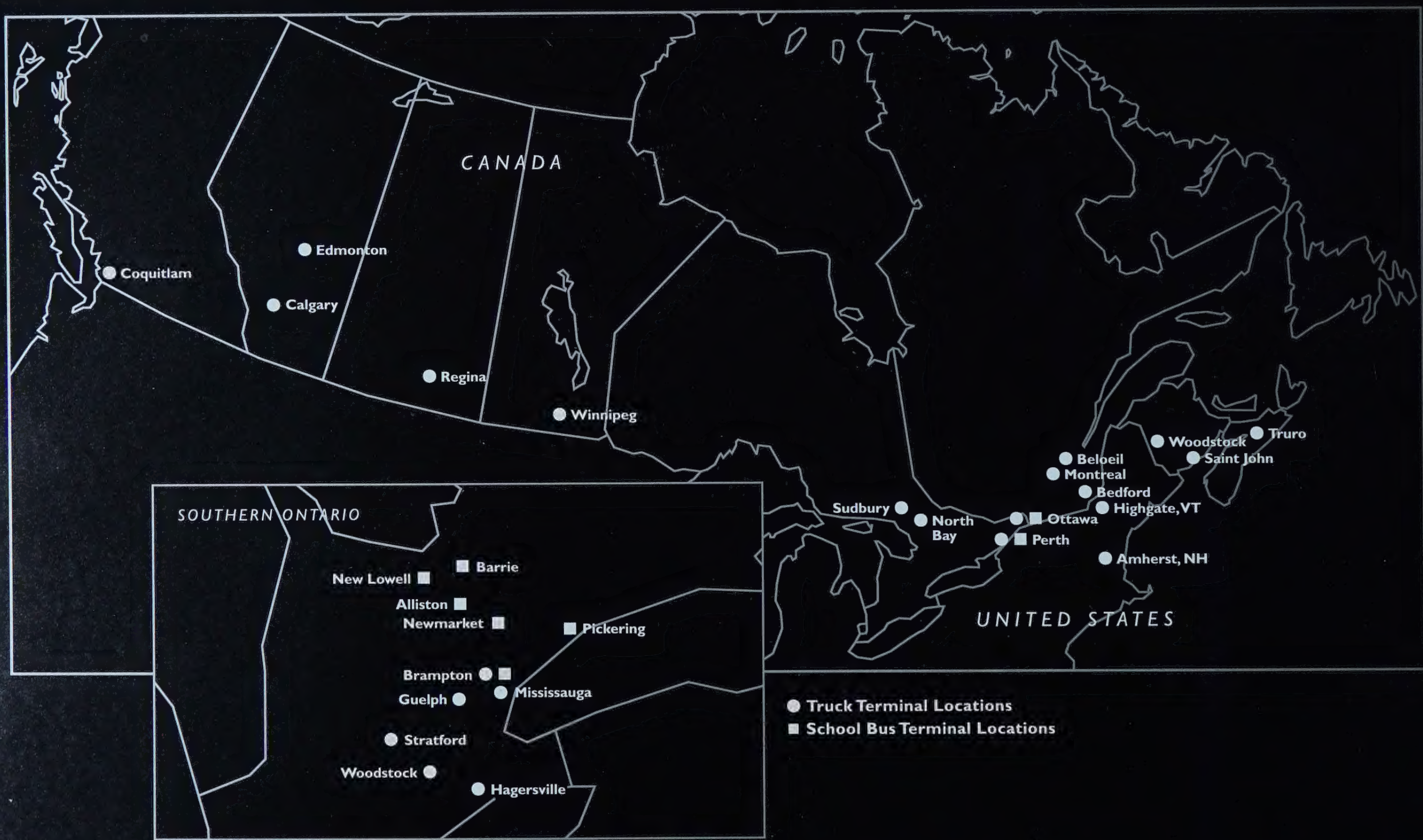
CONTRANS INCOME FUND



ANNUAL REPORT 2002

CONTRANS HAS BEEN OPERATING IN THE TRANSPORTATION INDUSTRY SINCE 1985 AS A PROVIDER OF FREIGHT TRANSPORTATION SERVICES IN THE TRUCKLOAD MARKET. WITH OVER 1,100 POWER UNITS AND 2,000 TRAILERS UNDER MANAGEMENT, CONTRANS IS ONE OF THE LARGEST FREIGHT TRANSPORTATION COMPANIES IN CANADA. IN MARCH 2002, CONTRANS ENTERED THE SCHOOL BUS TRANSPORTATION INDUSTRY AND CURRENTLY OPERATES APPROXIMATELY 600 BUSES SERVICING 18 SCHOOL BOARDS.



(000s)	2002(1)	2001(2)	2000(2)	1999(2)	1998(2)	1997(2)	1996(2)
Revenue	**$ 280,026**	$ 257,045	$ 270,945	$ 258,062	$ 198,289	$ 113,067	$ 99,065
EBITDA	**$ 35,842** **12.8%**	$ 31,819 12.4%	$ 31,268 11.5%	$ 26,501 10.3%	$ 20,671 10.4%	$ 13,511 11.9%	$ 12,488 12.6%
Earnings Before Taxes(3)	**$ 22,662** **8.1%**	$ 21,275 8.3%	$ 20,639 7.6%	$ 17,180 6.7%	$ 15,661 7.9%	$ 9,104 8.1%	$ 8,204 8.3%

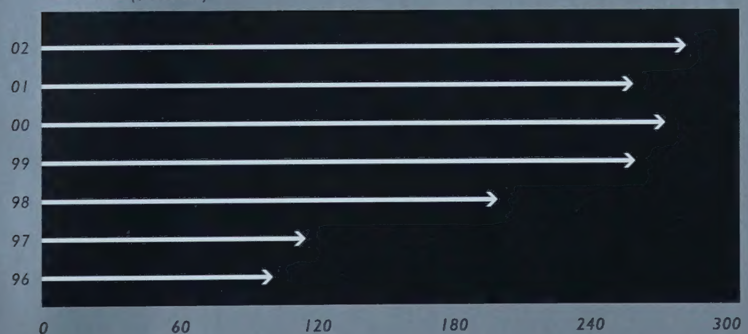
(1) Unaudited. Combined results of Contrans Corp. and Contrans Income Fund for the 12 months ended December 31.

(2) Results of Contrans Corp. for the 12 months ended August 31.

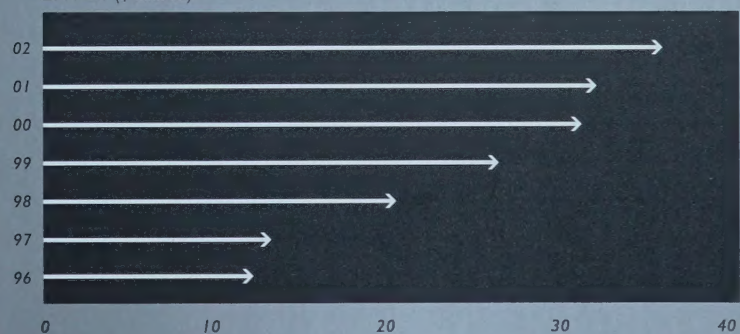
(3) For years prior to 2002, also excludes goodwill amortization.

2002 WILL BE REMEMBERED AS ONE OF THE MOST EVENTFUL AND SUCCESSFUL YEARS IN CONTRANS' HISTORY.

REVENUE ($ millions)



EBITDA ($ millions)



REPORT FROM THE CHAIRMAN AND PRESIDENT

We are extremely pleased with the Fund's results since inception.

With a backdrop of the Enron and Worldcom scandals, investors and advisors have had good reason to be suspicious of any new trends in the financial markets. Last year the Canadian IPO market was dominated by new income funds. Many of the new income funds, including Contrans, are in businesses outside of the traditional income fund model. It is not entirely surprising therefore that a certain amount of skepticism has surrounded this part of the market. However, we believe that fundamentally sound, well-run businesses that distribute their earnings to their stakeholders in a tax-efficient manner should be very attractive to value-seeking investors.

The year 2002 will be remembered as one of the most eventful and successful years in Contrans' history. Early in the year, the trading value of our shares rose steadily when we announced our intentions to convert into an income fund. We diversified into the school bus segment of the transportation market and also made several other acquisitions. We converted Contrans Corp. into Contrans Income Fund and successfully completed the Fund's initial public offering.

We are extremely pleased with the Fund's results since inception. Our core business has met many challenges and has continued to operate at a very good level of profitability. Results from our school bus operations have been very steady and predictable. As a result of our Tri-Line acquisition, we are now a national carrier and have terminals across Canada from which we can grow.

Both the trucking and school bus markets remain highly fragmented. Growth opportunities can arise from business failures and from owners in their later years who do not have capable heirs or successors. Since there are few

Well-run businesses that distribute their earnings to their stakeholders in a tax-efficient manner should be very attractive to value-seeking investors.

positioned to be consolidators in our industry, our approach in evaluating growth opportunities will continue to be deliberate, methodical and cautious.

Today's trucking industry is faced with many challenges. The costs of equipment, fuel and insurance have all increased significantly and qualified, safety-conscious owner-operators and company drivers continue to be in short supply. These factors have caused many to exit the business and have likely discouraged many others from entering it. Well-managed companies, however, can benefit and even prosper in troubled times. We have maintained an excellent base of customers who have worked with us to set up surcharge programs to offset increased fuel and insurance costs. We have also negotiated rate increases with our customers that have allowed us to offer more attractive levels of compensation to our owner-operators and company drivers without compromising our profitability.

Management remains committed as ever to creating long-term value by maintaining a sharp focus on revenue quality, equipment utilization and providing great customer service. This commitment has been shared by more than 2,000 people who work in our organization. Their skill and dedication have an incredible impact on the value that we deliver to unitholders every month.

Respectfully submitted,

Stan G. Dunford
Chairman of the Board
and President
March 4, 2003

Well-managed companies can benefit and even prosper in troubled times.

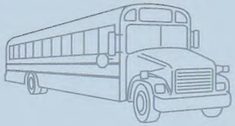
The attached financial statements detail the performance and financial position of Contrans Income Fund (the "Fund") and its operating subsidiaries from the Fund's inception on July 23, 2002 to December 31, 2002 and should be read in conjunction with the analysis that follows. Prior to July 23, 2002, the core business was owned by Contrans Corp. While there are no direct comparative results for the Fund for its initial reporting period, the underlying business has essentially remained unchanged from the business of Contrans Corp. Therefore, to provide meaningful analysis, the table below presents the aggregated results of operations of both Contrans Corp. and Contrans Income Fund for the period July 1, 2002 to December 31, 2002 and the results of operations of Contrans Corp. for the same period in 2001.

Results from Operations

Unaudited

	2002						2001	
Period July 1 to December 31 ($ millions)	Freight[1]		School Buses[1][2]		Total		Freight	
Revenue	$ 136.3	100.0%	$ 9.3	100.0%	$ 145.6	100.0%	$ 125.3	100.0%
Operating expenses	108.4	79.5	5.8	62.4	114.2	78.4	98.3	78.5
Selling, general and administration expenses	11.7	8.6	1.6	17.2	13.3	9.1	10.5	8.4
Earnings Before Interest, Taxes and Amortization (EBITDA)[3]	16.2	11.9	1.9	20.4	18.1	12.5	16.5	13.1
Amortization of property and equipment	4.4	3.2	1.5	16.1	5.9	4.1	3.9	3.1
Amortization of goodwill and intangibles	—	—	—	—	—	—	0.2	0.2
Net interest expense	0.7	0.5	0.1	1.1	0.8	0.5	0.8	0.6
Earnings Before Interest and Taxes	$ 11.1	8.2%	$ 0.3	3.2%	$ 11.4	7.9%	$ 11.6	9.2%

1. Freight includes head office costs to facilitate comparability. School bus operations reflect direct costs only.
2. There were no school bus operations in 2001. Accordingly, no comparative information has been provided.
3. Management believes that EBITDA is a useful measure in determining the distributable cash of the Fund. Since the Fund will distribute substantially all of its cash on an ongoing basis (after providing for the maintenance of its capital assets), management believes that EBITDA is also an important measure in evaluating the performance of the Fund. EBITDA is not an earnings measure recognized by generally accepted accounting principles in Canada ("GAAP") and does not have a standardized meaning prescribed by GAAP. Therefore, EBITDA may not be comparable to similar measures presented by other issuers.



Results from our school bus operations have been very steady and predictable.

Freight transportation

Tri-Line Freight Systems ("Tri-Line"), acquired April 19, 2002, contributed approximately $18 million of additional revenue during the period. Revenue for the remainder of the freight operations decreased by approximately $7 million as a result of lower volumes from customers in the construction industry, less one-time project work and a reduction in the number of contracted owner-operators. The impact of fewer owner-operators has been offset to a degree through greater use of partner carriers. Management has obtained rate increases throughout much of its customer base in order to offset higher fuel and insurance costs and to enhance the compensation offered to owner-operators. However, rate increases could not always be obtained and some business has been rationalized as a result. The Fund's sales force has been focused on finding suitable replacements for this business as well as pursuing further rate increases.

Operating costs, as a percentage of revenue, have increased during the period. Part of this is due to lower revenue quality in Tri-Line. During the period, Tri-Line's operating expenses amounted to 81.4% of its revenue compared to 79.2% for the rest of the freight operations. The increase in operating expense percentage in the rest of the freight operations was primarily due to a lag between fuel costs, which rose sharply late in the period, and amounts recovered through surcharges from customers.

Selling, general and administration expenses increased by $1.2 million during the period primarily as a result of the acquisition of Tri-Line. Tri-Line's selling, general and administration expenses were 11.1% of revenue during the period compared to 8.2% for the rest of the Fund's freight operations. This is primarily due to a network of eight terminal facilities across the country which support a relatively small revenue base. Management is carefully evaluating Tri-Line's infrastructure and has begun rationalizing redundant costs.

Amortization of property and equipment increased by $500,000 due primarily to the acquisition of Tri-Line. The remaining increase resulted from capital expenditures during the period.

Seasonality

Volumes from our customers in the construction industry tend to be robust in the summer and autumn but decrease during the winter. General freight volumes also drop off between Christmas and New Year's Day as many customers either shut down their production facilities or otherwise ship very little of their products. Accordingly, revenues were lower in the quarter ended December 31, 2002 than they were in the preceding quarter but were within management's expectations.

School bus transportation

In March 2002, Contrans Corp. acquired Northstar Passenger Services Ltd. and Edutran Transportation Inc. marking the

Both the trucking and school bus markets remain highly fragmented.

organization's entry into the school bus industry. On August 1, 2002, substantially all of the bus assets of Ludlow Bus Lines Limited were acquired. It is expected that these combined operations will generate annual revenues in excess of $20 million in their first full year. Management continues to pursue strategic growth opportunities in this segment.

Seasonality

Revenues from school bus operations fluctuate with the number of school days in a period. During the summer months, limited revenue is derived from charter work. Accordingly, the Fund's school bus operations typically incur operating losses during July and August compared to steady profits during the balance of the year save for the Christmas and March holiday periods.

Cash Flow

For the period July 23, 2002 to December 31, 2002, cash flow from operating activities before changes in non-cash working capital balances amounted to $15.0 million. The reduction in non-cash working capital balances arose as a result of the period beginning part way through a normal monthly accounting cycle. In addition, accounts receivable aging has improved. Offsetting these items were expenditures made to renew operating licences and insurance policies.

During the period, $9.3 million was expended on capital equipment. Part of management's philosophy involves operating an up-to-date, well-maintained fleet of tractors, trailers and school buses. Apart from the benefits that this produces in terms of better safety records and lower long-term maintenance costs, management views this as an effective recruiting and retention tool for professional drivers.

The Fund invested a total of $6.5 million to acquire the operating assets of Ludlow Bus Lines Limited, a school bus carrier, and the bulk transportation assets of Quinn Bros. Corp. on August 1, 2002 and September 25, 2002 respectively. These acquisitions were made to gain greater access to strategic markets.

Approximately $16.5 million of long-term debt was retired during the period in accordance with the terms of the Fund's new credit facility. An additional $2.2 million was expended during the period on regular debt repayments.

Unitholder Distributions

Management has commenced making distributions based on the actual and expected performance of operations and expected average net annual capital requirements to maintain its fleet. The trustees of the Fund assess the level of distribution each month based on the Fund's actual performance.

Distributions declared for the period July 23, 2002 to December 31, 2002 amounted to $12.4 million ($0.52 per unit) while

Our approach in evaluating growth opportunities will continue to be deliberate, methodical and cautious.

distributable cash[1] earned amounted to $10.4 million ($0.44 per unit). Distributable cash is defined as net income adjusted for certain non-cash items, such as amortization, less maintenance capital expenditures[2]. Distributions declared for the period October 1, 2002 to December 31, 2002 amounted to $7.4 million ($0.31 per unit) while distributable cash earned amounted to $6.9 million ($0.29 per unit).

Expenditures on maintenance capital for the period July 23, 2002 to December 31, 2002 amounted to $5.6 million ($2.0 million for the period October 1, 2002 to December 31, 2002) which, on an annualized basis, exceeded the expected average net annual capital requirements estimated to be $7.0 million. August and September have traditionally been months in which capital expenditures on trucking assets have been concentrated. Furthermore, August is a logical month to replace school buses as this provides adequate time to prepare the vehicles for the new school year.

As noted above, seasonal fluctuations in the Fund's business and maintenance capital expenditures had a disproportionate impact on the distributable cash for the period July 23, 2002 to December 31, 2002. However, based on the Fund's results to date, anticipated maintenance capital expenditures and the current economic conditions, management believes that it will be able to sustain distributions to unitholders currently established at $0.1042 per unit per month for the foreseeable future.

Liquidity and Capital Resources

Proceeds from the Fund's initial public offering have resulted in a strong balance sheet. As at December 31, 2002 the current ratio was 1.6 : 1 and the total debt to equity ratio was 0.5 : 1.

As at December 31, 2002 the Fund had $23.2 million available in its operating line and cash of $4.8 million.

During the period, 68 leased tractors and 160 leased trailers were replaced with new leased equipment. In total, the Fund has 203 tractors and 545 trailers under operating leases. In addition, 809 owner-operated tractors and 130 owner-operated trailers are under contract with the Fund.

Business Risks

The Fund is affected by economic cycles. Freight transportation operations service more than 3,000 customers in various industries and geographic regions with a fleet of dry van, flatbed, dump, dry bulk and liquid tank trailers. Some of the largest freight customers are in industries where demand for their goods is relatively inelastic. School bus operations provide transportation services to 18 school boards and are relatively unaffected by economic cycles.

1. Distributable cash is not an earnings measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, distributable cash as defined above may not be comparable to similarly named measures presented by other issuers. However, management believes that distributable cash is a useful measure for readers to evaluate the performance of the Fund.

2. Maintenance capital expenditures refer to expenditures on property and equipment that are necessary to sustain current revenue levels.

Management remains committed as ever to creating long-term value.

The diversity of the customer base also limits concentration of credit risk. No single customer accounts for more than 10% of the Fund's revenue.

Cross-border travel is required to service many customers in the Fund's freight operations. Approximately 40% of the total distance travelled by our trucks is travelled in the U.S. Accordingly, access to border crossings and timely customs clearance is critical to these shipments. Today's political uncertainties and border security concerns present risks to the efficiency of cross-border traffic. The Fund participates in professional and industry associations designed to lobby for the transportation industry's interests including improvements to border access and security.

The Fund is subject to certain foreign exchange risks as it has positive U.S. dollar cash flow arising from its freight operations. Changes in the relative value of the Canadian dollar against the U.S. dollar affect both the flow of goods between Canada and the U.S. and competition for freight. The Fund's freight operations compete effectively by providing high levels of service to service-sensitive customers.

The Fund's operating entities are subject to lawsuits from accidents and other insurable risks. Management maintains prudent levels of insurance coverage and high safety standards to minimize this exposure. Furthermore, management contracts only with insurers licensed to underwrite in Canada. The Canadian insurance industry is highly regulated with stringent capital and liquidity requirements.

The Fund's operations rely primarily on the services of owner-operators and professional drivers. As at December 31, 2002 the Fund had 809 owner-operators under contract, employed 283 company truck drivers and 581 school bus drivers. Besides offering competitive rates of pay, management is conscious of the quality of our working environment. In addition, when our own resources are unavailable, partner carriers provide freight hauling capacity.

Changes in interest rates affect both interest paid on floating rate debt and interest received on surplus cash. Approximately 61% of the Fund's long-term debt has a fixed interest rate.

Forward-looking Statements

Management's discussion and analysis contains certain forward-looking statements. These statements relate to future events or future performance. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other comparable terminology. Such statements reflect the current views of management of Contrans Income Fund with respect to future events. Actual events or results may differ materially. In evaluating these statements, readers should specifically consider various factors, including the risks outlined under "Business Risks". These factors may cause actual results to differ materially from any forward-looking statement.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Contrans Income Fund and all the information in this annual report are the responsibility of management and have been reviewed and approved by the Board of Trustees.

Management has prepared the financial statements in accordance with Canadian generally accepted accounting principles. Where alternative accounting methods exist, management has chosen those methods most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgement. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has ensured that the financial information presented throughout the annual report is consistent with that in the financial statements.

Management maintains systems of internal controls designed to provide reasonable assurance that the financial information is accurate and complete and that the Fund's assets are adequately safeguarded.

The Board of Trustees is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Board appoints an Audit Committee, which is comprised entirely of outside directors. The Committee meets quarterly with management and regularly with the Fund's external auditors, PricewaterhouseCoopers LLP, to discuss internal controls, auditing matters and financial reporting issues. PricewaterhouseCoopers LLP has full and free access to the Audit Committee. The Committee reports its findings to the Board who approve the financial statements for issuance to the unitholders. The Committee also considers, for review by the Board and approval by the unitholders, the engagement or reappointment of the auditors.

Stan G. Dunford
Chairman and President
March 4, 2003

AUDITORS' REPORT TO THE UNITHOLDERS

To the Unitholders of Contrans Income Fund

We have audited the consolidated balance sheets of Contrans Income Fund as at December 31, 2002 and July 23, 2002 and the consolidated statements of earnings, unitholders' equity and cash flow for the period July 23, 2002 to December 31, 2002. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2002 and July 23, 2002 and the results of its operations and cash flow for the period July 23, 2002 to December 31, 2002 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP
Chartered Accountants
Hamilton, Canada
March 4, 2003

SOLIDATED STATEMENT OF EARNINGS

For the period July 23, 2002 to December 31, 2002 (000s except per unit amount)	
Revenue	$ 129,900
Operating expenses	101,945
elling, general and administration expenses	11,908
Amortization of property and equipment	5,371
Amortization of intangible assets	39
Income From Operations	10,637
Net interest expense (Note 5)	668
ncome Before Income Taxes	9,969
ncome taxes (Note 8)	100
Net Income	$ 9,869
et income per unit – basic	$ 0.42
Weighted average number of units outstanding – basic	23,687

MENT OF UNITHOLDERS' EQUITY

002 to December 31, 2002 (000s)	(Note 7)
Unitholders' Equity – Opening	$ 79,734
Net proceeds from issue of subordinate voting trust units	37,068
Elimination of future income tax obligations upon conversion to an income fund	3,400
Net income for the period	9,869
Distributions declared	(12,359)
Unitholders' Equity – Ending	$ 117,712

companying notes are an integral part of these statements

(000s)	As at December 31, 2002	July 23, 2002
Assets		
Current Assets		
Cash	$ 4,809	$ 221
Accounts receivable	33,327	[illegible]
Other current assets	4,757	[illegible]
	42,893	
Property and Equipment (Note 4)	99,477	
Goodwill and Intangible Assets	29,443	
	$ 171,813	$ 156,685
Liabilities		
Current Liabilities		
Operating loan	$ —	$ [illegible]
Accounts payable and accrued liabilities	19,143	19,361
Distributions payable	2,472	
Income taxes payable	609	1,1
Current portion of long-term debt (Note 5)	5,135	21,239
	27,359	54,830
Long-Term Debt (Note 5)	21,614	13,573
Future Income Taxes (Note 8)	5,128	8,548
	54,101	76,951
Unitholders' Equity (Note 7)	117,712	79,734
	$ 171,813	$ 156,685

Commitments and contingencies (Notes 6 and 9)

The accompanying notes are an integral part of these statements

Signed on behalf of the Board

Stan G. Dunford, *Trustee*

Archie M. Leach, C.A., *Trustee*

For the period July 23, 2002 to December 31, 2002 (000s)	
Cash Provided by (Used in)	
Operating Activities	
Net income	$ 9,869
Items not affecting cash:	
Amortization of property and equipment	5,371
Amortization of intangibles	39
Future income taxes	(20)
Gain on sale of property and equipment	(271)
	14,988
Net change in non-cash working capital (Note 12)	1,078
	16,066
Investing Activities	
Expended on acquisitions (Note 3)	(6,525)
Proceeds from sale of property and equipment	1,041
Purchase of property and equipment	(9,345)
	(14,829)
Financing Activities	
Repayment of operating loan	(13,080)
Distributions paid	(9,887)
Proceeds from long-term debt	8,000
Repayment of long term debt	(18,750)
Issue of subordinate voting trust units net of issue costs (Note 7)	37,068
	3,351
Increase in Cash	4,588
Cash – Beginning of Period	221
Cash – End of Period	$ 4,809

The accompanying notes are an integral part of these statements

1. Organization

Contrans Income Fund (the "Fund") is an unincorporated, open-ended limited purpose trust established under the laws of the province of Ontario. The Fund was created for the purpose of acquiring and holding certain investments, initially through the effective acquisition of Contrans Corp. and its direct and indirect operating entities.

On July 23, 2002, Contrans Corp. and the Fund completed a plan of arrangement whereby the Fund indirectly acquired the outstanding shares of Contrans Corp. through a series of transactions immediately prior to the closing of the initial public offering described below. As part of the plan of arrangement, the Fund issued 11,851,610 subordinate voting trust units on a four for-one basis to certain existing shareholders of Contrans Corp. In addition, Contrans Holding Limited Partnership issued, on a four for-one basis, 5,515,782 Class A LP Units and 1,467,724 Class B LP Units to the remaining existing shareholders of Contrans Corp. The acquisition of Contrans Corp. by the Fund was recorded using the carrying amounts of Contrans Corp.'s assets and liabilities as at July 23, 2002.

Also on July 23, 2002, the Fund completed its initial public offering of 4,250,000 subordinate voting trust units at $9.50 per subordinate voting trust unit. The Fund also granted the underwriters an option to purchase up to a total of 637,500 additional subordinate voting trust units at $9.50 per subordinate voting trust unit. This option was fully exercised on August 1, 2002.

The Fund operates in the freight and school bus transportation industries.

2. Significant Accounting Policies

Principles of consolidation

The purchase method of accounting for business combinations has been used and the accounts of all subsidiaries have been consolidated with those of the Fund.

Goodwill

Goodwill and other intangible assets with indefinite lives are tested for impairment on an annual basis.

Property and equipment

Property and equipment are valued at acquisition cost less accumulated amortization. Amortization is provided over the estimated service lives of the assets as follows:

Buildings – Straight-line over 15 to 40 years

Rolling Stock – Tractors – 25% declining balance
Trailers – Straight-line over 10 to 15 years
School buses – Based on usage over 7 to 11 years

Service Vehicles and Other Equipment – 20% to 30% declining balance

Management periodically reviews the estimated service lives of these assets and adjusts amortization accordingly.

Intangible assets

Intangible assets consist of non-competition agreements and are amortized on a straight line basis over the lives of the agreements from which they arose. Accumulated amortization as at December 31, 2002 was $68,000

Revenue recognition

Revenue is recognized when services are provided.

Income taxes

The Fund is a mutual fund trust as defined under the Income Tax Act (Canada). Pursuant to the Declaration of Trust, all of the taxable income earned directly by the Fund in the period is distributable to unitholders and such distributions are deducted for income tax purposes. Consequently, no provision for income taxes is required for the Fund. The Fund's subsidiaries

are, however, subject to income taxation and provide for income tax obligations based upon statutory corporate tax rates and provide for federal large corporations taxes as necessary.

FUTURE INCOME TAXES

The liability method is used to account for future income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated income tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using tax rates expected to be in effect when the temporary differences are expected to be recovered or settled. The effects of changes in income tax rates are reflected in future income tax assets and liabilities in the period that the rate changes are substantively enacted.

MEASUREMENT UNCERTAINTY

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts at the date of, and for the period of, the financial statements. Actual results could differ from those estimates. Estimates are reviewed on a regular basis and, as adjustments become necessary, they are reported in income in the periods in which they become known.

3. Acquisitions (000s)

On August 1, 2002, Northstar Passenger Services LP, a partnership controlled by the Fund, acquired substantially all of the bus assets and assumed certain liabilities of Ludlow Bus Lines Limited. On September 25, 2002, Glen Tay Transportation LP, a partnership controlled by the Fund, purchased substantially all of the trucking assets and assumed certain liabilities of Quinn Bros. Corp. The purchase price allocations are as follows:

	Ludlow Bus Lines Limited	Quinn Bros. Corp.	Total
Other current assets	$ 53	$ —	$ 53
Property and equipment	4,430	1,615	6,045
Goodwill	2,833	656	3,489
Intangible assets	—	79	79
Fair value of assets acquired	7,316	2,350	9,666
Accounts payable and accrued liabilities	321	133	454
Long-term debt	2,687	—	2,687
Fair value of liabilities assumed	3,008	133	3,141
Cash consideration	$ 4,308	$ 2,217	$ 6,525

4. Property and Equipment (000s)

December 31, 2002	**Cost**	**Accumulated amortization**	**Net**
Land and improvements	**$ 8,150**	**$ —**	**$ 8,150**
Buildings	**20,335**	**4,654**	**15,681**
Rolling stock and other equipment	**106,134**	**30,488**	**75,646**
	$ 134,619	**$ 35,142**	**$ 99,477**

July 23, 2002	Cost	Accumulated amortization	Net
Land and improvements	$ 7,447	$ —	$ 7,447
Buildings	18,821	4,187	14,634
Rolling stock and other equipment	100,404	32,257	68,147
	$ 126,672	$ 36,444	$ 90,228

5. Long-Term Debt (000s)

	December 31, 2002	July 23, 2002
Notes payable with fixed and floating interest rates between 6.6% and 9.3% (July 23, 2002 – 6.6% and 7.67%)	$ **16,227**	$ 17,990
Floating rate term loans with interest at prime plus 0.75% (July 23, 2002 – between prime plus .25% and prime plus .75%)	**8,000**	5,325
Fixed rate term loans at rates between 7.12% and 7.15%	**—**	8,841
Other unsecured loans with interest at varying rates and due dates	**2,522**	2,656
	26,749	34,812
Less: Current portion	**5,135**	21,239
	$ **21,614**	$ 13,573

Notes payable are repayable in equal monthly payments and mature at dates between February 2003 and December 2007. Liens on rolling stock with a net book value of approximately $26.6 million have been provided as security.

On July 23, 2002, a majority-owned partnership of the Fund, Contrans Holding Limited Partnership ("Partnership"), entered into a new $50 million syndicated credit facility consisting of a tranche of $25 million as a 364-day revolving credit facility ("revolving facility") and a tranche of $25 million as a two-year term revolving facility ("term facility"). The revolving facility is available to finance general operating requirements and the term facility is available to repay current debt, acquire property and equipment and finance acquisitions. The term facility may not be used to fund corporate distributions or maintenance capital expenditures.

The credit facility has been guaranteed by each of the operating entities, Contrans Income Fund, Contrans Operating Trust and Contrans Corp. The Partnership and each of the guarantors have provided general security in favour of the lending syndicate. The credit facility limits distributions to unitholders under certain circumstances and prohibits distributions in events of default. Currently there are no restrictions preventing the Fund from making distributions to unitholders.

Upon completion of the new credit agreement, $16.5 million of the proceeds from the Fund's initial public offering was used to retire certain outstanding term bank loans, notes payable and equipment finance contracts.

Net interest expense is comprised of the following:

Period ended December 31, 2002	
Long-term interest expense	$ **708**
Short-term interest income	**(40)**
Net interest expense	$ **668**

Aggregate minimum payments required on long-term debt in each of the next five years to meet retirement provisions are as follows:

Year ending December 31,	
2003	$ 5,135
2004	14,184
2005	3,158
2006	1,342
2007	408
Thereafter	2,522
	$ 26,749

6. Contingencies

Outstanding Litigation

In September 1994, two actions were filed by separate groups of former employees against Laidlaw Carriers Inc. ("Laidlaw") and an Ontario loan and trust company. These actions involved the valuation of the employees' benefit plans in 1988. In 2001, after application for leave to appeal an earlier court decision was denied, these actions became a single class proceeding. Management is unable to determine the outcome of this lawsuit at this time.

Laidlaw had been a wholly owned subsidiary of Contrans Corp. and, upon amalgamations that took place on July 23, 2002, the potential liability surrounding these actions was combined with Contrans Corp., a corporation controlled by the Fund that continues to provide administrative services to the Fund and the operating entities.

7. Unitholders' Equity

Authorized

Unlimited numbers of Subordinate Voting Trust units and Class A Limited Partnership ("LP") units and 1,467,724 Class B LP units are authorized.

Voting, distribution and exchange rights

The Subordinate Voting Trust units and the Class A LP units are entitled to one vote each. The Class B LP units are entitled to ten votes each. Distributions are made equally on a pro rata basis. Each Class A and Class B LP unit is exchangeable for a Subordinate Voting Trust unit effectively giving the Class A and Class B LP units the same rights and entitlements as the Subordinate Voting Trust units. They have therefore been included in unitholders' equity on the balance sheet.

Redemption rights

Subordinate Voting Trust units are redeemable by the Fund at any time at a price equal to the lesser of 90% of their market price during the five trading day period commencing immediately after the date of surrender and 100% of the closing market price on the redemption date.

Issue of Subordinate Voting Trust units

On July 23, 2002, the Fund completed its initial public offering under which 4,250,000 units were issued for net proceeds of $31,375,000 after deducting costs of the offering and expenses related to the conversion to an income fund. In addition, on August 1, 2002, the Fund's underwriters exercised their right to acquire an additional 637,500 Subordinate Voting Trust units in conjunction with the initial public offering for net proceeds of $5,693,000.

Continuity of Contrans Corp.'s ending Shareholders' Equity to the Fund's ending Unitholders' Equity

(000s)	Units	Amount
Shareholders' Equity of Contrans Corp. as at July 22, 2002		$ 79,734
Elimination of future income tax obligations upon conversion to an income fund		3,400
Units issued upon conversion to an income fund	18,835	83,134
Issue of Subordinate Voting Trust units, net of issue costs of $9,363	4,888	37,068
Unitholders' Equity, July 23, 2002	23,723	120,202
Net income		9,869
Distributions declared		(12,359)
Unitholders' Equity, December 31, 2002	23,723	$ 117,712

Units issued and fully paid

(000s)	Subordinate Voting Trust units	Class A LP units	Class B LP units	Total
Units outstanding at July 23, 2002	11,851	5,516	1,468	18,835
Issued during the period	4,888	—	—	4,888
Exchanged during the period	48	(48)	—	—
Units outstanding at December 31, 2002	16,787	5,468	1,468	23,723

8. Income Taxes (000s)

The following table reconciles the provision for income taxes recorded in the statement of earnings for the period ended December 31, 2002 with the Canadian statutory income tax rate of 38.6%:

Income before income taxes	$ 9,969
Computed income tax expense at Canadian statutory rate	3,848
Reduction of taxes due to taxable income allocated to unitholders	(3,868)
Large corporation tax	120
Income tax expense	$ 100

The tax effect of temporary differences of the Fund's operating entities that give rise to future tax assets and liabilities as at December 31, 2002 are presented below:

Future tax assets	
Non-capital loss carryforwards	$ (1,632)
Future tax liabilities	
Property and equipment -- differences between tax and accounting values	6,760
Net future income tax liability	$ 5,128

9. Lease Commitments (000s)

Future minimum payments for operating lease obligations are as follows:

2003	$ 7,118
2004	6,458
2005	6,069
2006	3,260
2007	131
Thereafter	240
	$ 23,276

10. Financial Instruments

The carrying values of accounts receivable, accounts payable and accrued liabilities and long term debt approximate their fair value. The fair value of long-term debt is determined at the net present value of contractual future payments of principal discounted at current market rates of interest for similar debt instruments with terms stretching over the remaining lives of the outstanding loans. Floating rate debt is assumed to be carried at fair value.

The Fund services a large customer base in various industries which helps limit concentration of credit risk. Some of the Fund's largest customers are in industries where demand for their goods is relatively inelastic. The Fund undertakes credit checks on new accounts and closely monitors the credit performance of all its customers.

The Fund is subject to foreign exchange risks. Management has determined that these are not significant.

11. Related Party Transactions (000s)

The Fund had business transactions with a company controlled by the Chairman of the Fund as follows:

Period ended December 31, 2002	
Transactions during the period	
Equipment purchases	$ 729
Repairs and maintenance	823
Rental income	52
Balances at end of period	
Accounts payable	78
Accounts receivable	7

These transactions were carried out in the normal course of business and at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

12. Cash Flow (000s)

Change in non-cash working capital:

Period ended December 31, 2002	
Decrease in accounts receivable	**$ 2,770**
Increase in other current assets	**(479)**
Decrease in accounts payable and accrued liabilities	**(672)**
Decrease in income taxes payable	**(541)**
Net change in non-cash working capital	**$ 1,078**
Cash paid in respect of:	
Interest	**$ 625**
Income taxes	**661**

13. Segmented Information (000s)

The Fund operates in the freight transportation industry and in the school bus transportation industry, both based in Canada. There have been no transac- [illegible] operating segments except for interest charges on long-term note indentures. Costs incurred at the Fund's head office, denoted as "Other" in the table below, are allocated to each operating segment.

	Revenue	Net interest expense (income)	Amortization of property and equipment	Income before income taxes	Total assets	Capital expenditures
Freight	$ 120,743	$ 3,165	$ 3,718	$ 9,710	$ 104,855	$ 4,448
School bus	9,157	484	1,451	217	37,620	4,700
Other	—	(2,981)	202	42	29,338	197
	$ 129,900	$ 668	$ 5,371	$ 9,969	$ 171,813	$ 9,345

(unaudited)	2002(1)	2001(2)	2000(2)	1999(2)	1998(2)	1997(2)	1996(2)
Return on equity (3)	**19.1%**	23.2%	20.9%	19.0%	26.6%	37.8%	43.4%
Operating ratio (4)	**91.2%**	91.4%	91.9%	92.8%	92.1%	91.4%	90.8%
Debt to equity (5)	**0.46**	0.93	1.29	1.40	1.25	2.31	2.35
Earnings before taxes (6)(13)	**$ 22,662**	$ 21,275	$ 20,639	$ 17,180	$ 15,661	$ 9,104	$ 8,204
Operating cash flow (7)(13)	**$ 28,147**	$ 21,164	$ 21,860	$ 17,637	$ 13,158	$ 9,370	$ 8,868
Operating cash flow per unit/share (8)	**$ 1.34**	$ 1.17	$ 1.11	$ 0.85	$ 0.73	$ 0.57	$ 0.52
Tangible book value per unit/share (9)	**$ 3.72**	$ 3.20	$ 2.41	$ 2.01	$ 1.72	$ 0.72	$ 0.68
Earnings per unit/share – basic (10)	**$ 0.84**	$ 0.76	$ 0.54	$ 0.42	$ 0.45	$ 0.35	$ 0.29
Price earnings ratio (11)	**10.3**	4.7	7.1	9.2	8.3	5.7	4.1
Weighted average number of units/shares outstanding (12)(13)	**20,989**	18,116	19,672	20,792	18,124	16,476	16,992

(1) Combined results of Contrans Income Fund and Contrans Corp. for the 12 months ended December 31, 2002

(2) Results of Contrans Corp. for 12 months ended August 31

(3) Return on equity was calculated by dividing net income by average unitholders'/shareholders' equity

(4) Operating ratio was calculated by dividing total expenses before interest and taxes by revenue

(5) Debt to equity was calculated by dividing total debt (including future tax obligations) by unitholders'/shareholders' equity

(6) For years prior to 2002, also excludes goodwill amortization

(7) Operating cash flow was calculated as cash from operations before changes in non-cash working capital

(8) Operating cash flow per unit/share was calculated by dividing operating cash flow by the average number of units/shares outstanding

(9) Tangible book value per unit/share was calculated by dividing tangible unitholders'/shareholders' equity by the number of units/shares outstanding at year end

(10) Earnings per unit/share – basic was calculated by dividing net income by the weighted average number of shares outstanding during the year

(11) Price earnings ratio was calculated by dividing year-end closing price by earnings per unit/share

(12) Imputes a 4:1 split for periods prior to July 23, 2002

(13) Thousands

Officers

Stan G. Dunford
Chairman of the Board
and President

Gregory W. Rumble
Executive Vice-President

D. Jamieson Miller
Secretary-Treasurer

James S. Clark
Vice-President Finance

Principal Office

1179 Ridgeway Road
Woodstock, Ontario
N4S 8P6
(519) 421-4600

Transfer Agent and Registrar

Computershare Trust Company
of Canada
100 University Avenue
Toronto, Ontario
M5J 2Y1

Stock Exchange Listing

Toronto Stock Exchange
Symbol: css.un

Annual Meeting

The annual meeting of Unitholders will be held at the
Four Seasons Hotel
21 Avenue Road
Toronto, Ontario
Wednesday, May 21, 2003
at 4:30 p.m.

Annual Information Form

A copy of the Fund's Annual Information Form may be obtained without charge upon written request.

Website

www.contrans.ca

Printed in Canada

Contrans Income Fund
1179 Ridgeway Road, Woodstock, Ontario N4S 8P6
Tel: (519) 421-4600   Fax: (519) 539-9220
www.contrans.ca